



THE VALUE PROPOSITION FOR ESG INVESTING IN ASIA

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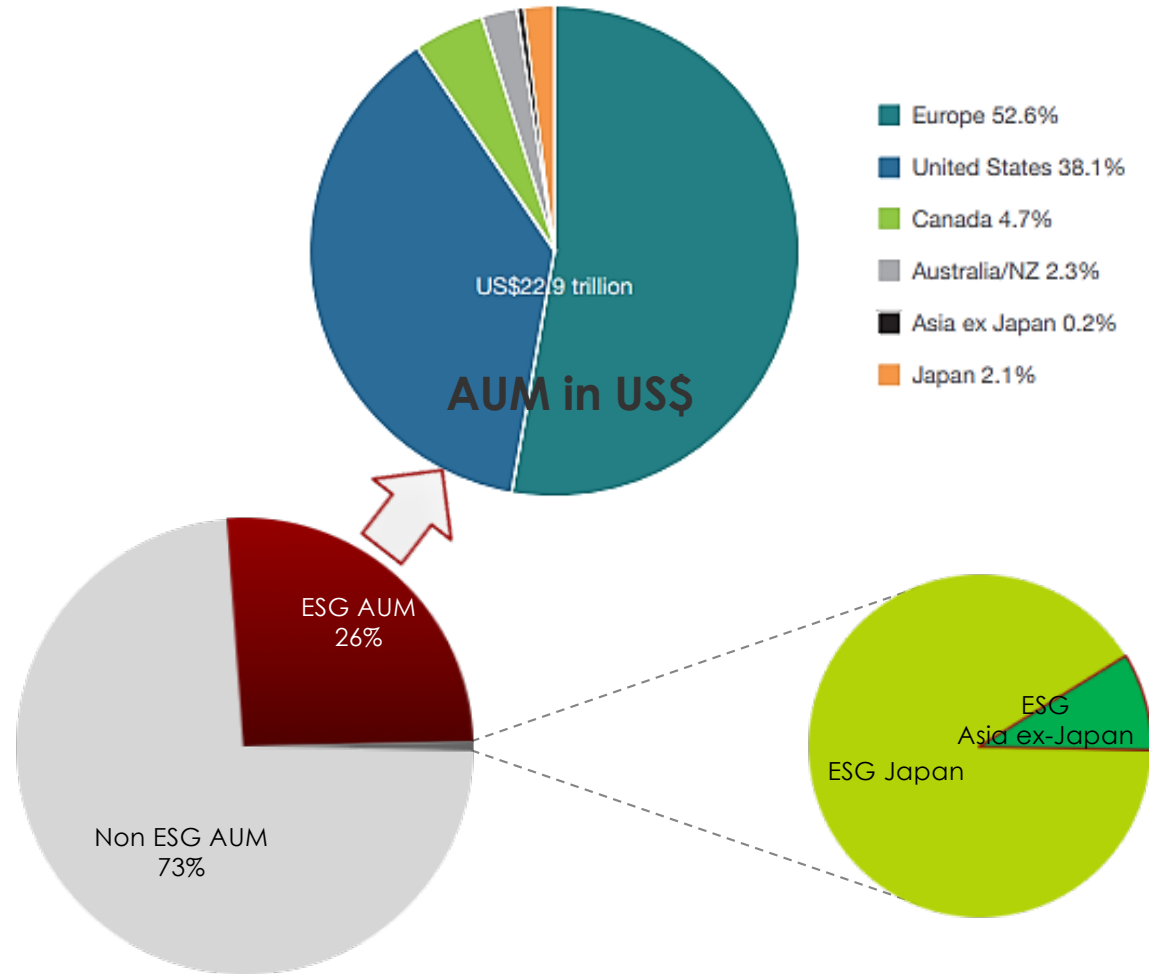
Facts about ESG

- i. ESG investing is risk management at its core.
- ii. ESG analysis should follow a structured approach.
- iii. ESG investing is positively related to company performance.
- iv. Governance is the driving ESG factor in Asia.
- v. ESG Investing in isolation leads to underperformance.
- vi. Green bond issuance is a strong commitment for ESG consideration.
- vii. Large institutional investors have pushed the ESG agenda in Asia.

ESG Investing in Asia is set to grow

Only US\$500bn of US\$23trn ESG asset are managed in ASIA and 90% of that in Japan.

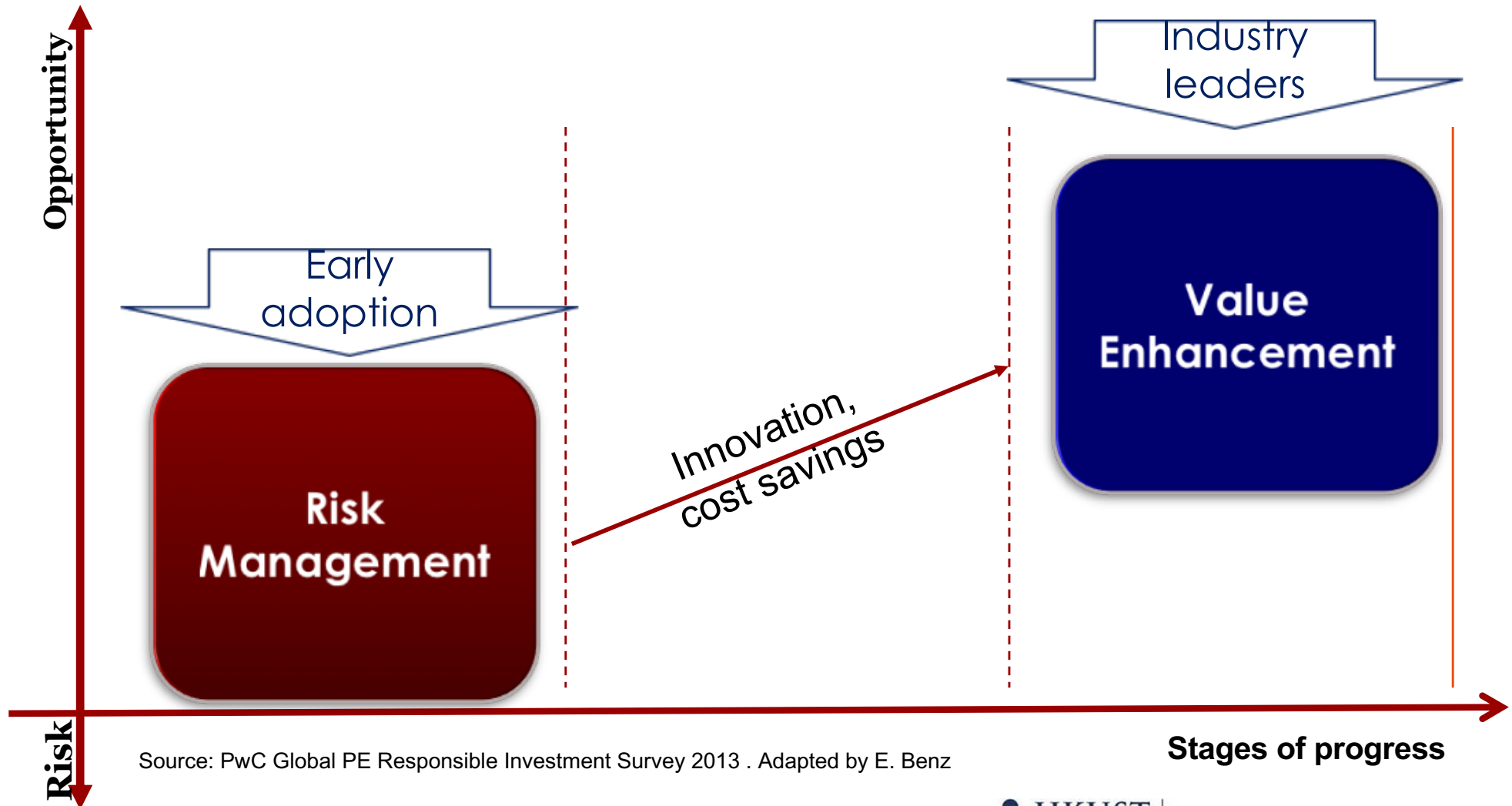
Asia ex-Japan is therefore only 0.2% of the total ESG AUM.



■ Non SRI AUM ■ SRI AUM ■ Asia ■ Asia ■ Asia ex-Japan

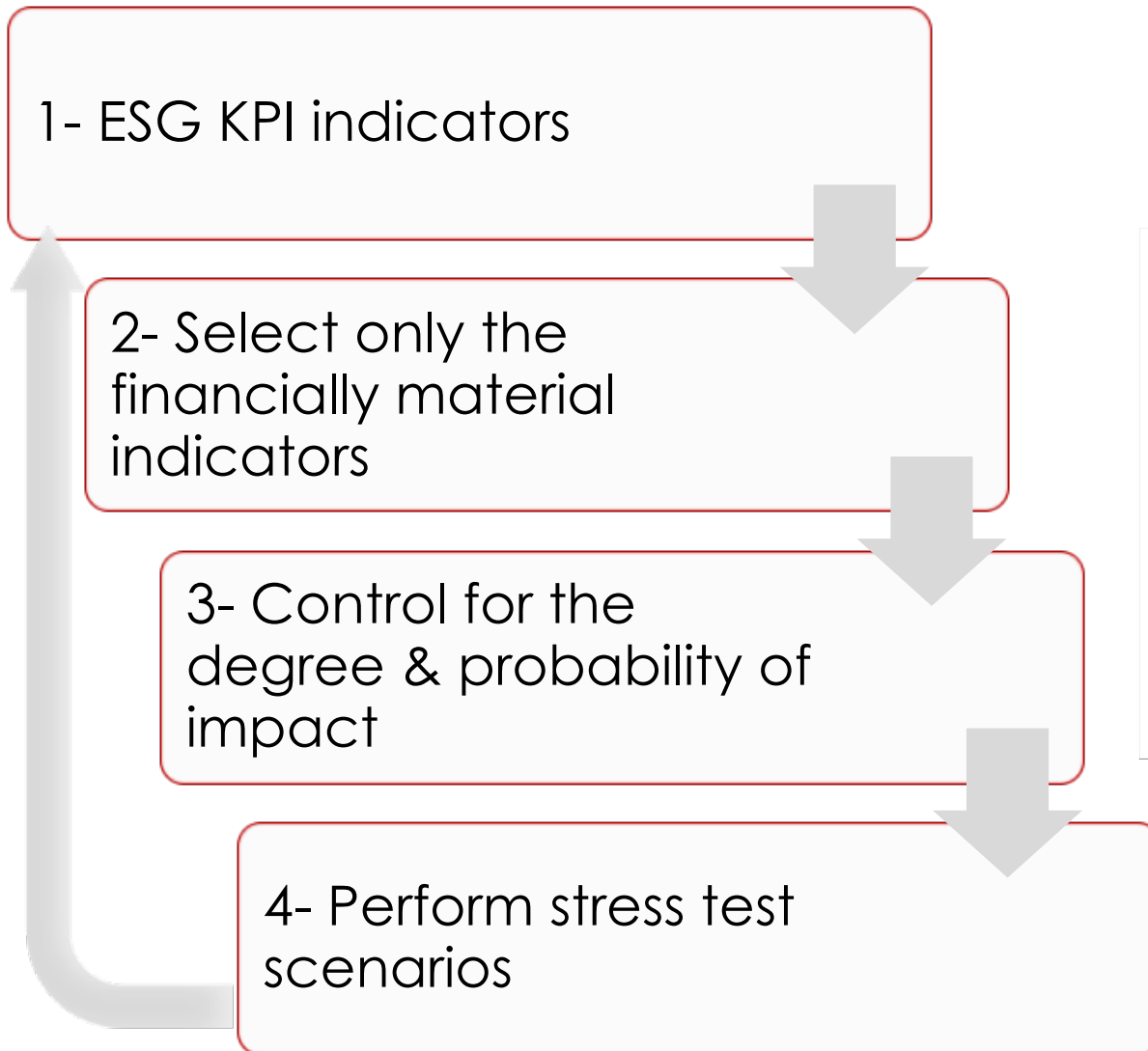
ESG Investing is Risk Management

ESG is relevant **information** that should be taken in account!

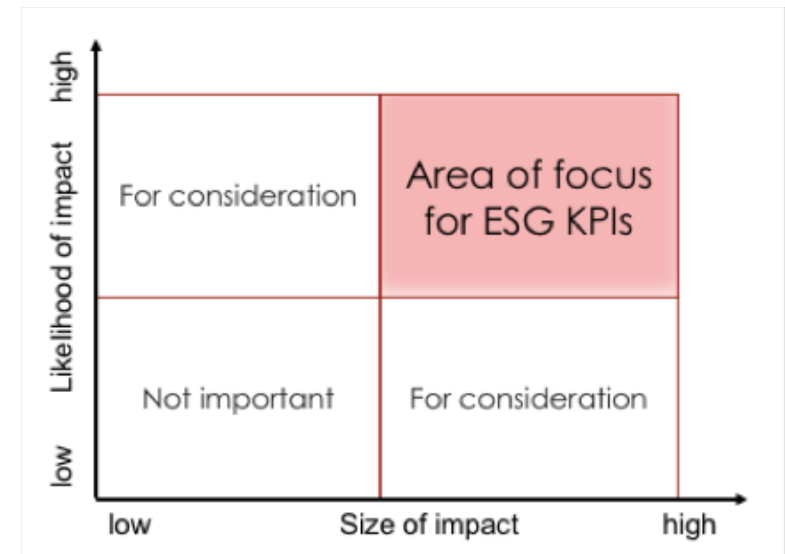


Source: PwC Global PE Responsible Investment Survey 2013 . Adapted by E. Benz

Need for structured ESG Analysis

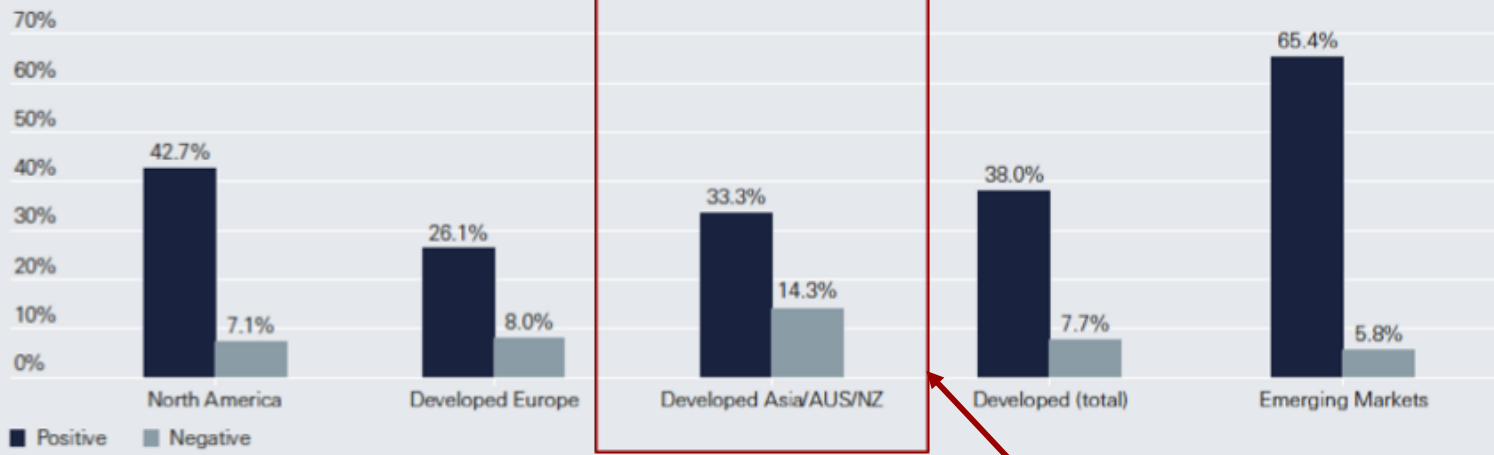


The Process of ESG Materiality Analysis



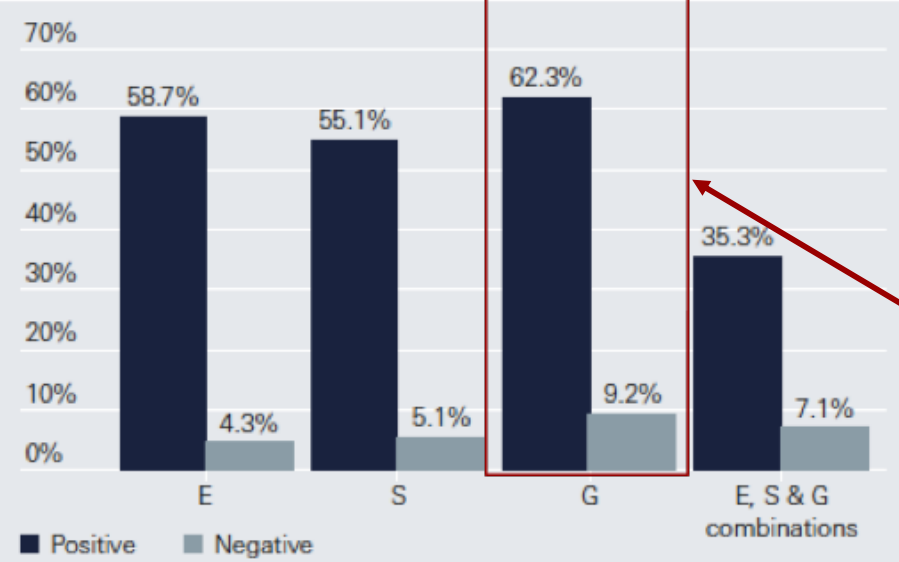
E,S and G factors affect valuations

Figure 7: Tracking the link between ESG & CFP across various regions (vote-count sample)



Source: Friede, Busch, Bassen (December 2015)

Figure 5: Environmental, social & governance categories and their relationship to CFP



Source: Friede, Busch, Bassen (December 2015)

ESG factors are important for the company's financial performance (Asia: 33% positive relationship).

Governance is the most important one (62%).

Governance is the most important factor in Asia

Asia: Improvement in Governance score has strong implications for firm performance.

World	APAC
Increase stock price return (in 2 years)	Same with 70% larger effect
Increase future P/E ratio (in 1 year)	Same with 60% larger effect
Increase future ROE (in 2 years)	Not applicable to APAC
Not in other regions	Reduce volatility (in 2 years)
Not in other regions	Lower beta (in 2 years)

Source: HKUST and Robeco study, 2015

Generalized empirical finding

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Alpha	Cost of debt	Cost of equity	Beta	Total Risk	Engagement
+	+/-	-	-	-	+
Eccles, Ioannou, and al, FM 2011, Reneboog et al, 2008 Khan et al., Accounting Review, 2017.	Goss and Roberts, 2011 ESG in IG Bonds, Allianz Global Investor GmbH, 2016 Barclays 2015, ESG rating and performance	El Gouhl et al., JBF 35, 2011 Foundations of ESG investing, MSCI, 2017	Ioannis, Brooks and Pavelin, Financial Management 2012 Foundations of ESG investing, MSCI, 2017	Bouslah et al, JBF 37, 201 Foundations of ESG investing, MSCI, 2017 3	Dimson, Karakas and Li, 2013

ESG should be part of overall strategy and not isolated

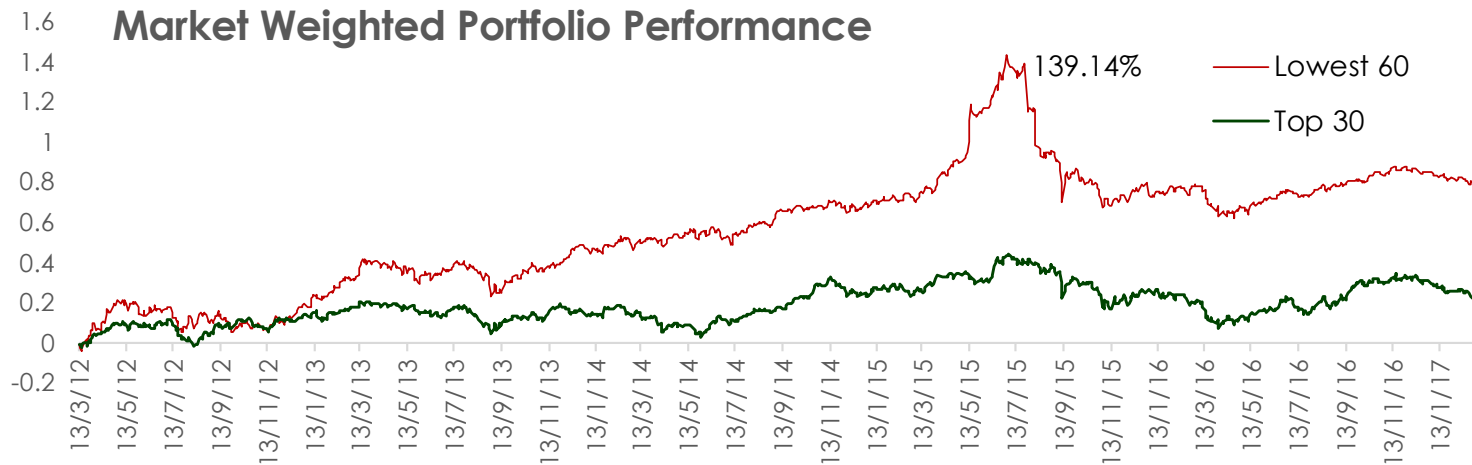
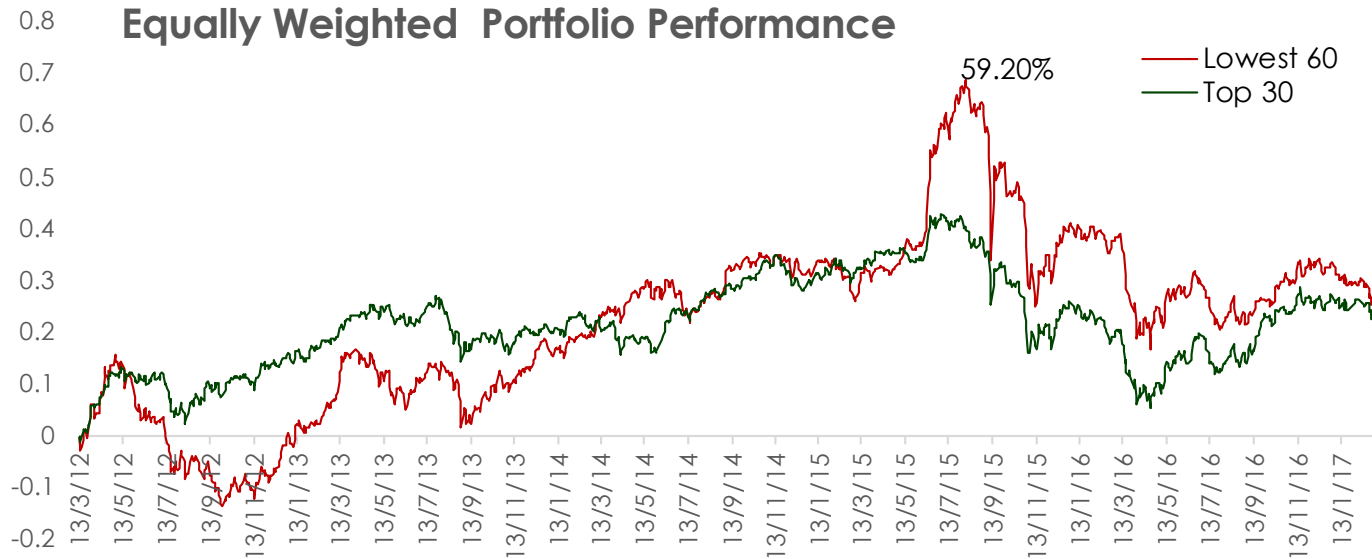


The sustainability index HSSUS has overall outperformed the local market index HSI during the last five years.

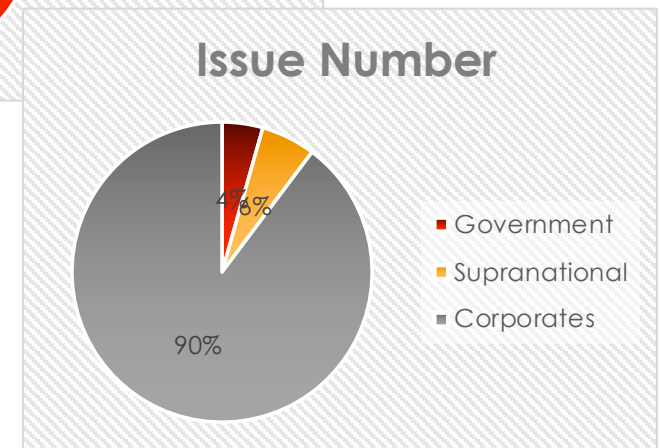
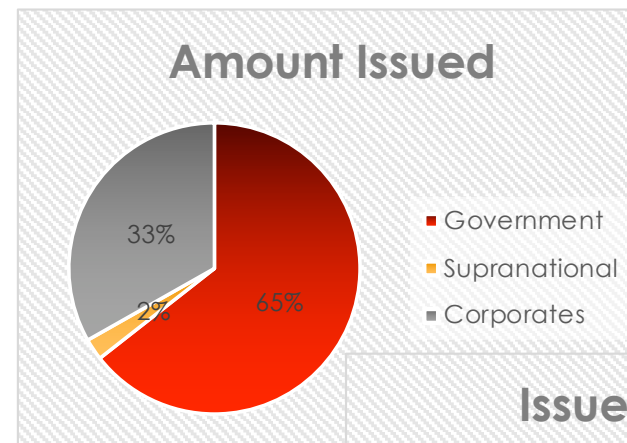
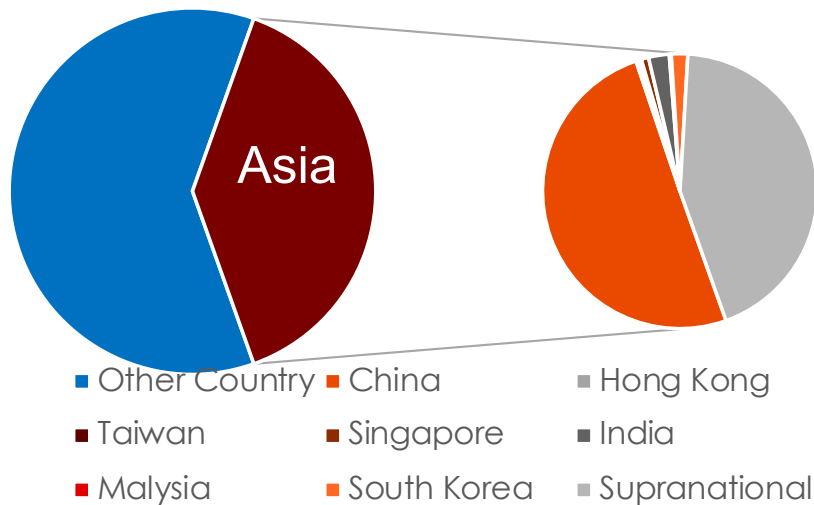
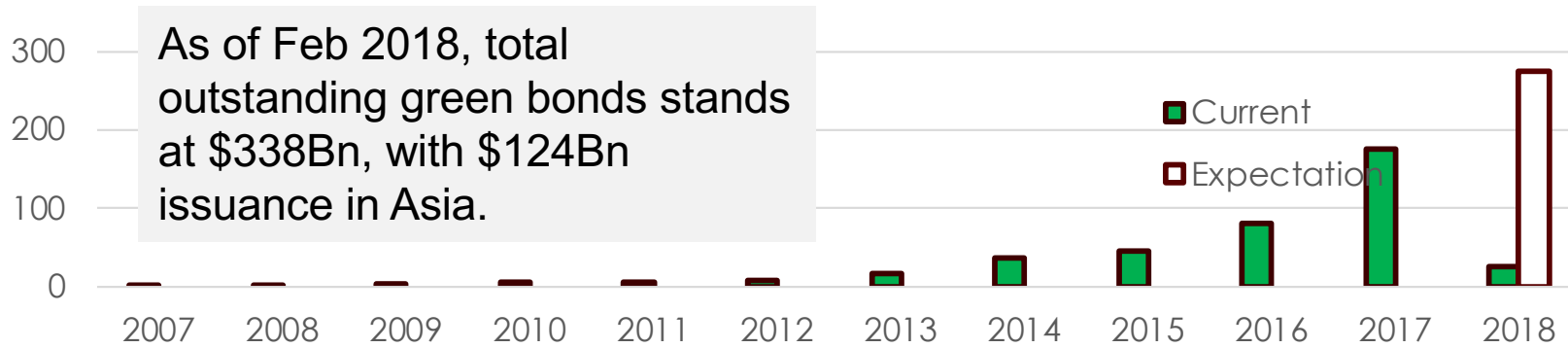
However, the performance is conditional on the market volatility and other factors.

Source: Bloomberg

ESG should be part of overall strategy and not isolated....



Green Bonds indicates a commitment to ESG



Source: Bloomberg Nov 2017

Potential driver of ESG in Asia

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Short/Medium- term

- **Government policy**
 - Finance transition to low carbon economy
- **Active ownership/ Beta engagement**
 - Pension funds/ Asset Owners/ Asset Managers
- Technology
 - Diminishing cost of renewable energy

Medium/Long- term

- Demand from “new” type Investors
- Migration
 - Due to climate change (Asia at high flooding risk and extreme weather)
 - Conflicts
 - Aging population etc.
- Climate change
 - Water risk, carbon risk etc

Recommendations

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- i. Focus on active engagement with companies.
- ii. Increase corporate disclosure (G is the driver of performance).
- iii. Mandate disclosure on materiality ESG factors and scenario analysis.